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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, NOVEMBER 23 -
DECEMBER 6

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¶1. SUMMARY: This information is drawn primarily from the
Kazakhstani local press and has not been verified for accuracy.

- New Budget Code Signed by President
- Regional Trade News
- ArcelorMittal Guarantees Employment to Share Purchasers
- Renaissance Capital Advisor for Distressed Assets Fund
- Economic Statistics
- Kazakhstan to Strengthen Local Content Requirements
- Feasibility Study for Aktau Nuclear Power Plant
- British Gas and KazMunayGas Agree to Explore Hydrocarbons
- Embezzlement Charges Against Serik Burkitbayev

NEW BUDGET LAW SIGNED BY PRESIDENT

¶2. On December 4, President Nazarbayev signed into law new
legislation on government budgeting. According to the presidential
press service, the new law will introduce results-oriented methods
for budget planning, implement a three-year budgeting process, and
reinforce control over budget spending, especially in quasi-public
institutions.

REGIONAL TRADE NEWS

¶3. President Nazarbayev announced his support for Uzbek President
Karimov's proposal to create a bilateral free-trade zone. While
receiving credentials from new Uzbek Ambassador Farukh Tursunov,
President Nazarbayev said that Kazakhstan "has always welcomed the
economic integration of the region." He added that Kazakhstan and
Uzbekistan "must continue to enhance the potential of mutually
beneficial cooperation for the sake of Central Asian security and
stability and further development of economic, cultural and
humanitarian cooperation between our countries." Kazakhstani-Uzbek
bilateral trade doubled to more than \$1.4 billion in 2007.

¶4. According to Afghan TV channel Ariana, the Afghan Ministry of
Commerce is allocating \$50 million for the purchase of 200,000 tons
of wheat from Kazakhstan. Afghanistan reportedly needs 1 million

tons of wheat this year and only 30% of this total has been provided to date by aid agencies and the private sector.

ARCELORMITTAL GUARANTEES EMPLOYMENT TO SHARE PURCHASERS

15. Employees of ArcelorMittal Temirtau were given a ten-day opportunity to buy shares in the enterprise as part of a management effort to promote corporate solidarity. Shares were offered for 2,280.50 tenge (about \$19) each and employees could buy a maximum of 200 shares. According to the shareholder agreement, taxes must then be paid in both Kazakhstan and Luxemburg, and shares cannot be sold or earn dividends for the next three years. However, in return for their share purchases, employee shareholders are guaranteed employment for the next three years. Of the 45,000 Kazakhstani employees at ArcelorMittal facilities, only 150 became shareholders in this campaign, which was apparently received poorly. (NOTE: ArcelorMittal recently laid off several thousand workers, citing reduced global demand for steel. END NOTE.)

RENAISSANCE CAPITAL NAMED ADVISOR FOR DISTRESSED ASSETS FUND

16. The Government of Kazakhstan named Russian investment bank Renaissance Capital to be advisor for the creation of a new distressed assets fund. Renaissance Capital will work with the Samruk-Kazyna National Welfare Fund, which has been charged with implementing Kazakhstan's financial crisis rescue package. One of Russia's biggest domestic investment banks, Renaissance Capital has been heavily impacted by the financial crisis and recently sold a 50% ownership stake to metal and banking tycoon Mikhail Prokhorov.

ECONOMIC STATISTICS

17. According to National Bank Chairman Anvar Saidenov, Kazakhstan's current account has a balance of payments surplus in excess of \$9 billion for the period January to September 2008. This is partially

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due to a 66% growth in exports to \$57 billion, and just an 18% increase in imports to \$29 billion, resulting in a \$28 billion trade balance surplus during that time period. Saidenov said that the National Bank expects a current account surplus of \$7-8 billion for all of 2008.

18. According to the National Statistics Agency, inflation in November was 11.3% year-on-year, and monthly inflation was 0.4%. Food prices increased 13.3% year-on-year, while prices on services and non-food products increased by 12.6% and 7%.

KAZAKHSTAN TO STRENGTHEN LOCAL CONTENT REQUIREMENTS

19. During the 20th meeting of the Foreign Investors Council in Almaty on December 5, Kazakhstan's President Nursultan Nazarbayev called on the government and the Samruk-Kazyna National Welfare Fund to sign agreements within three months with subsoil users on local content requirements. According to press reports, the President said that only 135 of 575 registered companies monitor local content, and high-profile subsoil users Tengizchevroil, Agip KCO, and Karachaganak Petroleum Operating Company were not among them. (COMMENT: Each of these three international consortia keeps careful records on the number and percentage of Kazakhstani employees, as well as the value of contracts and subcontracts to Kazakhstani companies. It is not clear why they did not appear on the register of companies that monitor local content. END COMMENT). On a positive note, BG Group was named "Best Investor of the Year."

FEASIBILITY STUDY FOR AKTAU NUCLEAR POWER PLANT

110. The Interfax wire service reported on November 26 that by the end of 2008, Russia's Afrikantov Research and Development Bureau would complete a feasibility study for construction of a nuclear power plant in the vicinity of the decommissioned BN-350 plutonium fast-breeder reactor in Aktau, West Kazakhstan oblast.

BRITISH GAS AND KAZMUNAYGAS AGREE TO EXPLORE HYDROCARBONS

111. On December 5, BG Group and KazMunaiGas signed a cooperation

agreement to carry out a gas exploration and hydrocarbon reserves study.

EMBEZZLEMENT CHARGES AGAINST SERIK BURKITBAYEV

¶12. Kazakhstan's financial police brought charges against former KazMunaiGas (KMG) President Serik Burkitbayev for embezzling 2.4 billion tenge (approximately \$20 million) from the Kazakhstan Oil and Gas Institute, a KMG subsidiary he had previously headed. The top management of the institute allegedly paid five research institutes for fictitious engineering services.

HOAGLAND